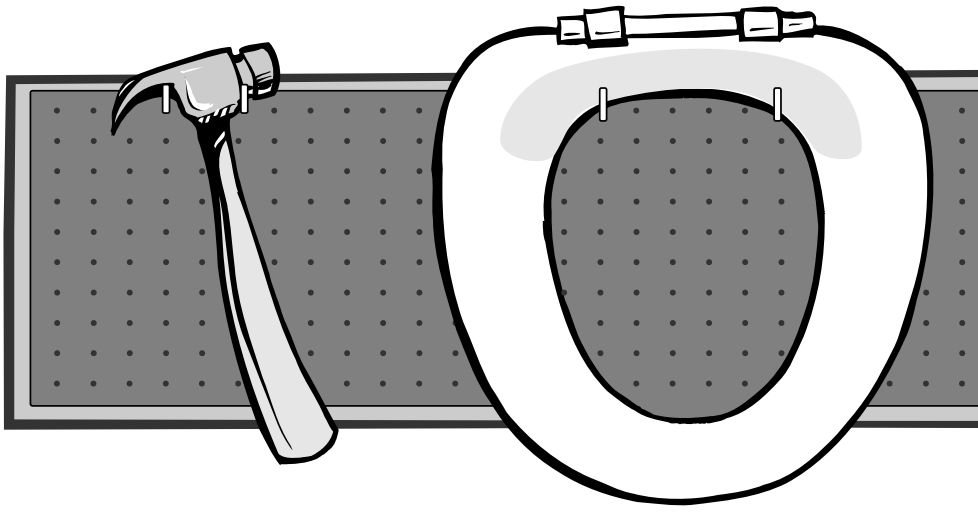
THE COST OF LOSING CONTROL

Perceptions Belie Facts — and the Public's Perception is DoD Wastes Money

Michael L. Tompkins

If you want a job done right, do it yourself. It's a familiar refrain from time immemorial. The originator could not have known, however, that he or she was describing one of the earliest forms of work control. Similarly, with the aid of an outstretched index finger and a stern voice, it's the same refrain that every parent uses to explain the idea of work control to every son or daughter: if you want a job done right, do it yourself to get the work done to your satisfaction. Simply put, if you want a job done to your standards — meaning the time required to perform the work, the cost, the level of quality and the required quantity — you should be in control, from start to finish.



Who Supplies the Element of Work Control?

That may well be a splendid idea, but what if someone other than you is doing the work? What if someone else is performing the task — a person or a company that possesses the necessary skills, knowledge, plant facilities and the equipment needed to do the job and who charges for the products or services that they produce for you?

You only pay the bill and make use of the goods or services when their work is completed. In a situation like this, who supplies the important element of work control? Is it the person who pays to have the work done, or is it the person or company who actually provides the finished product or service to the consumer? Or, perhaps, both have an equal responsibility to control the work being produced and the price to be paid for that work when completed.

Work Control — A Definition

Work control is the timely awareness of a given job or task, and the authority and means to initiate a change that will steer that work in a desired direction through to successful completion. Timely awareness and knowledge can be described as all the influencing cognitive factors that can impact work in progress. These factors are important because without them no control decisions can be made — they are the factors that influence a decision to respond and to exercise a manager's means to control a given program.

Making Informed Decisions

To manage means the manager assumes the responsibility of controlling a program — to plan it, organize it, direct it, control and coordinate it to its final and successful conclusion.

Mr. Tompkins is a Production Management Specialist, Contractor Logistics Support (CLS) Center of Excellence, Oklahoma City Air Logistics Center (OC-ALC/LAAP), Okla. He is a past contributing editor to Program Manager.

Whether it's hammers, toilet seats, bolts, or overbilling — the headlines say we're wasting money.

The program could be a simple personal one, such as hiring someone to make repairs to your home or car within an agreeable time period. Before agreeing to the work, you ensure that the quality of the finished product and the price you are expected to pay is fair and reasonable for that particular market. Or, it can be knowing enough about your own work to make "informed decisions" on work-related issues. The only unanswered questions regarding work control are —

- What degree of control is needed?
- At what point of a task or program should control over work be exercised by its manager to keep that program directed toward its goal?

Too Little vs. Too Much

If too little control is used, the work could run off schedule, fail at a critical time or cost far more than is fair and reasonable. If too much control is exercised, these same effects could occur. Somewhere between these two ambiguous extremes is the proper level of control to keep the work or program headed in the desired direction, on time and within budget limitations.

The Consequences of Losing Control

If control of a program involving many individuals and tasks is not shared equitably, or if too much control of the program is left in the hands of the one(s) producing the work, the result can be a loss of central control and a much higher cost for the program. This can sometimes result in "cost over-runs" or "overcharging." For government, these costs can reach upward to millions or even billions of dollars as noted by the following recently published examples:

From a Seattle, Washington-based News Service, dated May 1, 1994:

"BOEING PAYS $75 MILLION FINE"

The Boeing Co. has paid $75 million to settle an investigation that found the aerospace company systematically overcharged and mischarged the U.S. Government… The mischarges occurred from 1980 to 1991…"

From Washington, Associated Press, April 13, 1994:

"NAVY SCAM OUTRAGEOUS, SENATORS SAY"

It took little more than a rented mailbox, a couple of blank forms, a rubber stamp and postage. That and some forgery produced a $3 million bonanza for former Military Sealift Command insider, Edward McGill. He bilked the government for 5 years and was caught only when an accountant noticed bills were being paid for work supposedly done on a ship no longer in the fleet.

Senators complained:

"...there is no way to tell how many other scams are operating and how much money is [being] lost. I don't have a feeling that you really have a system yet that will catch things like [this]," Senate Governmental Affairs Committee Chairman John Glenn, D-Ohio, told Pentagon Comptroller John J. Hambre at a committee hearing.

Senator Byron Dorgan (D-N.D.) said the case was as outrageous as the $500 hammer and overpriced toilet seats that awakened the Pentagon to procurement fraud…"somebody, someplace isn't thinking."

Hambre agreed with the diagnosis of the senators and the General Accounting Office: "Problems arise because the Pentagon pays bills as they come in, without checking invoices against any other files or computer records. Overpayments to contractors are so common that in the first 9 months of Fiscal Year 1993, contractors sent $1.4

billion back to the government. In most cases they returned the money without being requested to do so."

From Washington, Associated Press, March 18, 1994:

"Energy Department contractors can't account for tens of millions of dollars worth of equipment…" Investigators for the General Accounting Office and the Inspector General told a Senate hearing that contractors running federal nuclear weapons plants have shown widespread disregard for excess equipment leading to millions of dollars in government losses.

Lost money can never be fully recovered. And, even if that remedy is attempted, the cost to recover the lost money can itself be expensive. But, control over an acquisition program can be gained. Lost control of a government program can be as devastating to government and government's agencies as losing control of one's own checkbook or owed credit card balance. The outcome is not only embarrassing, but also damages the credibility of all those companies and individuals involved in the loss.

Fixing Responsibility

The money government spends is not its own. All of it comes from America's taxpaying citizens. And, for that reason, government managers are even more responsible for their charge of managing the public's funds wisely and with frugality.

As an analysis, try substituting a fictional company's name for the word "government" as mentioned in the preceding examples:

Over-payments to Acme Manufacturing contractors are so common that in the first 9 months of fiscal year 1993, their contractors sent $1.4 billion back. In most cases they returned the money without being requested to do so.

Problems arise because Acme Manufacturing pays bills as they come in, without checking invoices against any other files or computer records.

Acme Manufacturing company contractors can't account for tens of millions of dollars worth of equipment. Company officials have been quoted as saying, "our contractors running our parts program have shown widespread disregard for excess equipment leading to millions of dollars in company losses."

"...somebody, someplace isn't thinking," one Acme Manufacturing company stockholder was quoted as saying.

Would you invest any of your money in Acme Manufacturing Company? How good is Acme Manufacturing's management team's control over the company's business? If adequate and effective controls were in place, none of these events would have occurred, at least, not in the "millions-of-dollars-lost" range needed to attract the nation's media attention.

Plan First; Then Set Controls In Place

Establishing program controls is one of the most important parts of all project planning. It's also the part of planning most often overlooked because many program planners invariably assume it's somewhere, built-in to their program:

"Somebody, somewhere is probably working out what forms should be filled out and "who-reports-to-whom" on this — if any of this is wrong we'll hear about it later"; or

"There is probably some regulation that covers this. But doing it this way will be easier and faster, and we can keep our problems in-house."

What means of control is to be used and what those controls are supposed to achieve and when should be as important to managing a program as establishing the need or want that is being contracted for and acquired. Again, controls must be focused from an awareness of all the influencing factors, both internal and external to the program, that can impact a program and cause veering from its planned direction and goal.

The Means to Control

Management's means to control its program can take many forms. Files of records of necessary and constantly changing information; regulations; internal policies; reporting procedures; an individual's authority to act at a given time and under a given circumstance; an organization's personnel structure; or any number of means and methods — all these are means that result in a flow of current, accurate and useable information. This information can be used in making controlling decisions and determining a way to make those directed decisions meaningful and useful in steering the task or program. Accordingly, any control used must be consistent to be its most effective.

Breaking the Work into More Manageable Sub-elements

The Work Breakdown Structure (WBS) is an important tool in establishing the necessary working levels of control. It also constitutes a valuable way to visually map-out the controls needed to steer a program. By breaking the program down and making individual task assignments, the WBS keeps the program on time, on track and within budget.

Who is responsible? And, for what? Make sure that these individuals are fully aware of their responsibilities, their means of reporting, who they

report to, and at what times their information is needed.

> First manager: "Why didn't you know about this problem, and how much it was costing our program?"
>
> Second manager: "I didn't know about it because no one ever told me that it was a part of my job."
>
> First manager: "Well, you should have figured that out for yourself..."

Put implemented controls in writing. Map the controls to be used in steering the program, and put those controls in written form. Assign the individuals responsible at key points. This will take thought; a shared knowledge of all aspects of the program; the imagination to foresee the impact of potential problems from the program's inception; and much free and open discussion from all those concerned and involved. Then, give copies of the assignments to those people named, or post the assignments so they are all aware of what they are expected to do, and when they are expected to do it. And, keep the assignments current.

Control is like steering the path of a rolling ball that can go in any direction at any time: it's a chosen path with individuals' names assigned at the path's most significant control barriers. When any of these barriers is struck or breached, a warning flag should go up to signal a loss of control to the path's central program manager. But, these controls must be planned well in advance of releasing the ball on its path.

Control is Also a Question of Ownership

Next, and perhaps the most important and difficult question of all concerning the subject of work or program control is: who has ownership of the need to control the work or program? "You can do the job right if you are doing the job yourself." In government, contractor-supported programs give much of the right to control the program away to the contractor.

"All qualified companies should have the opportunity to do business with the government and have the right to strive on an equal basis with all other potential suppliers."

Most government contractor-supported programs are written using a fixed-price contract. What that means is that government pays a price equal to the firm price specified as a term of the contract.

> "The contractor's ability to avoid a loss or make a profit under the fixed-price arrangement is directly related to its control of the costs of performance...The contractor assumes responsibility for [any higher] costs with the degree of responsibility determined by the particular type of fixed-price arrangement negotiated" for the desired acquisition.[1]
>
> "The contractor agrees to use its best efforts to complete contract requirements within the [stated] estimate."[2]

The contractor is given a greater percentage of program control of government acquisition contracts because the contract itself is written as a total package with everything wanted in the acquisition being "clearly stated." Thus, the supplier "knows exactly what is wanted" as part of the contract's terms and descriptive data — a condition that is supposed to be the result of extensive research and planning on the part of government — a condition that seldom happens.[3]

The result is government administering its contracts rather than actively managing them; subsequently, much of government's control is lost. The shock to government comes when the final bill for the contract comes due as noted by the preceding well-publicized examples.

The Control Offered by Free Market Competition

A free and competitive market is the basis for the system to work effectively. But, "the virtues...ascribed to competition are those that exist under conditions of perfect competition, when supply and demand are in a state of equilibrium.[4] They hardly ever are, particularly in the markets for military goods and services" because "specially created military specifications restrict the opportunity for competition. Recent efforts to increase the use of commercial products and to discourage development and use of unique specifications and insistence on brand-name products are aimed at removing those restrictions. The law of supply and demand produces effective competition (and control) only when what is being bought and sold is offered by many sellers."[5]

How Can Lost Government Program Control Be Regained?

Control by government of its programs can be gained only by placing reporting and control methods and procedures in its contracts. For example, when a specified task is performed by the contractor, contact [name of government representative] before proceeding on to the next step or phase.

But this type of control can be time-consuming. In addition, it can be very expensive for government in contractor man-hours lost in waiting for answers. Further, it places the burden of production-line shutdown responsibility squarely on the government representative contacted for a decision before a contractor can proceed — a burden that would probably not be readily accepted by government or that individual.

It can impact other areas, too, such as scheduling and material control, personnel staffing and transportation. Another available option is to use the method of WBS to reduce one large all-encompassing contract for one supplier down to a few smaller, more manageable ones to a variety of smaller bidders. Each of these smaller contracts would then be controlled by a management team and central program coordinator well versed in the professional subjects being managed.

Examples of this method would be lower-tiered program contracts for several areas: engine maintenance; research and development (R&D engineering); engineering services; ground support; fuel; data services (computer and information services); machine shop and welding services; support equipment service and repair; etc. The advantages of this system would be an increased use (and best use) of free market competition, a lower cost for government, and regained program control with fewer surprises when the smaller contracts are completed.

Very large all-encompassing contracts to one contracted source reduce competition in the market and increase contract cost by limiting the number of competitors. Small task-oriented contracts to many competing bidders have the opposite effect of increasing the number of competitors and lowering overall program cost.

A review of past issues of *Defense Magazine's* annual *Almanac* issue shows the same large "prime contractors" receiving the majority of all defense contract awards — contract awards amounting to billions of America's tax dollars. These contractors, in turn, sub-contract many of their coordinated efforts to a variety of smaller contracted sources for a profit/management fee. This is something government could do for itself; save a great deal of money; gain greater control over its programs; and create many new skills and jobs in government besides.

> "If barriers to full and open competition are eliminated so far as possible, substantially improved competition and lower prices should result."[6]

> The most "effective competition" results when there are "enough sellers so that no one seller dominates a particular market. All sellers are independent and active rivals, and new firms can enter the market easily."[7]

> "All qualified companies should have the opportunity to do business with the government and have the right to strive on an equal basis with all other potential suppliers."[8]

In a market controlled only by the few companies who can afford the large capital investment needed to enter and participate in Government's large, "all that is needed is included in this one contract" method, few others can participate except at these large companies' discretion. Government loses control of its contractor-supported programs, and pays a much higher price than commercial business. Why? Because it sells away its program's control to the lowest bidder — sometimes at a very high and far-reaching price. For control to be its most effective, the discretionary ability to exercise it should be retained by the one paying the bill. By planning the tasks needed to implement and field a program, and then structuring major contracted tasks so multiple contractors can participate on a level playing field, more control over the program will be retained by government, and program costs will be lowered.

The Exception — Of Course, There Had to be One!

Many new acquisitions are extremely proprietary or unique by specification, such as newly designed aircraft, weapon or computer systems. They may have no other commercial source other than their original manufacturer for maintenance, general facility support or repair parts needs. These acquisitions will have a limited opportunity for government to lower-tier their contractor support to competing bidders than those that are more common and more commercial.

Those that are less unique, and subsequently have larger numbers of commercial support providers, will have more available sources and more opportunities for government to make best use of alternative methods and free market competition. Ultimately, this will result in more government management control over its programs and lower costs. This, too, is a matter of research and an acquired knowledge of the freely competing market and commerce — research and knowledge out there just waiting to be used to government and business's mutual advantage.

References

1. *Armed Services Pricing Manual*, Superintendent of Documents, Washington, D.C. (Department of Defense, 1986), Chap 1, para 4, p. 1-11.
2. Ibid, Chap 1, para 2, p. 1-11.
3. Ibid, Chap 2, para 7, p. 2-5.
4. Ibid, Chap 2, para 3, p. 2-5.
5. Ibid, Volume 2, Chap 12, para 7, p. 12-3.
6. Ibid, Volume 2, Chap 12, para 6, p. 12-3.
7. Ibid, Chap 2, para 5, p. 2-2
8. Ibid, Chap 2, para 2, p. 2-4.